ALPS DirectIndex Portfolios

Tax-Aware Equity Management for Taxable Accounts

SS&C | ALPS ADVISORS

Concept

Direct indexing applies a straightforward principle: by owning the underlying securities of an index rather than a pooled vehicle, investors gain access to tax management opportunities that ETFs and mutual funds cannot legally provide to shareholders.

The Investment Company Act of 1940 prevents funds from passing tax losses through to investors. Direct indexing removes this structural limitation, enabling systematic harvesting of losses at the individual security level while maintaining market exposure.

Owning the underlying index securities allows investors to access tax strategies unavailable to ETF or mutual fund shareholders.

Mechanics

1

Direct Ownership

An investor holds 150–250 individual equities constructed to track a target benchmark with minimal deviation.

2

Systematic Harvesting

When individual positions decline, losses are realized and similar exposures substituted—generating deductions while preserving market participation.

3

Tax Efficiency

Harvested losses offset gains elsewhere in an investor's portfolio, or up to $3,000 annually against ordinary income, with unlimited carryforward.

Dispersion Opportunity

Index returns mask significant constituent dispersion. Over the past decade, an average of **453 US large-cap stocks annually** experienced drawdowns of 10% or greater—even in years when the index finished positive. This dispersion creates harvesting opportunities unavailable through pooled vehicles.

Structural Comparison

Component	ETFs / Mutual Funds	Direct Indexing
Loss Harvesting	Fund level only	Individual security level
Ownership Structure	Pro-rata share of pooled assets	Direct title to securities
Customization	Fixed portfolio composition	Exclusions and constraints available
Expected Tax Alpha	N/A	85–110 bps annually*

Considerations

Direct indexing is most effective for investors who:

- Hold meaningful assets in taxable accounts (as opposed to solely tax-deferred vehicles).
- Face higher marginal tax rates where harvested losses carry greater value.
- Anticipate realizing capital gains from concentrated positions, real estate or business sales.
- Seek market-like returns with improved after-tax outcomes.
- Maintain a multi-year investment horizon (harvesting benefits compound over time).

Your advisor can help determine whether direct indexing fits within your broader tax and investment strategy.

* *Expected annual tax alpha per Chaudhuri, S., Burnham, T., & Lo, A. W. (2020). "An empirical evaluation of tax-loss harvesting alpha." Financial Analysts Journal, 76(3), 95-113. Actual results vary based on individual circumstances, market conditions and tax rates.*

Important Disclosures & Definitions

ALPS DirectIndex Portfolios are managed by ALPS Advisors, Inc., a SEC-registered investment adviser. All investing involves risk, including possible loss of principal. This material is for informational purposes only and does not constitute investment, tax or legal advice. Consult your tax advisor regarding your specific situation.

ALPS Advisors, Inc. ("SS&C ALPS Advisors" or "ALPS Advisors") is a SEC registered investment adviser located in Denver, Colorado. Registration does not imply a certain level of skill or training. ALPS Advisors may only transact business in those states in which it is registered or qualifies for an exemption or exclusion from registration requirements.

Information presented herein is provided for educational or informational purposes only. ALPS Advisors does not transact business via this material. Nothing herein should be construed as financial advice.

Information developed by ALPS Advisors is subject to change at any time without notice. ALPS Advisors provides such information for illustrative and informational purposes only. This information may represent personal opinions and viewpoints of the commentators and should not be regarded as a description of advisory services provided by ALPS Advisors.

Information presented herein does not constitute investment, legal or tax advice; performance data; an endorsement of any third party or such third party's views; or any recommendation that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person. Information is impersonal and not tailored to the circumstances or investment needs of any specific person. Any mention of a particular security and related performance data is not a recommendation to buy or sell that security. Whenever there are hyperlinks to third-party content, this information is intended to provide additional perspective and should not be construed as an endorsement of any services, products, guidance, individuals or points of view outside ALPS Advisors. All examples are hypothetical and for illustrative purposes only.

ALPS Advisors does not warrant information presented herein to be correct, complete, accurate or timely, and is not responsible for any errors or omissions in the information or for any investment decisions, damages or other losses resulting from, or related to, use of the information. No assurance can be made regarding the profitability of any security mentioned or regarding the accuracy of any forecast made. Not all past forecasts were, nor future forecasts may be, as accurate as those presented. Past performance is no guarantee of future returns.

Investing involves risk, including the possible loss of principal and fluctuation of value. There is no assurance that the stated objective will be met. Please consider the charges, risks, expenses and investment objective carefully before investing. Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy, sell or hold any securities. Past performance is no guarantee of future results.

AAI001085 2/28/2027